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SUBJECT: Argentine Economy Minister to Senator Dodd: The Kirchner
Model Still Works

Summary

1. (SBU) New Economy Minister Carlos Fernandez highlighted the Argentine economy's strong recovery since 2002 and continuing strength during a May 29 meeting with visiting U.S. Senator Christopher Dodd and Representative Xavier Becerra. The Minister attributed the fast growth since 2003 to the "Kirchner" policies of maintaining a "competitive" currency and high budget surpluses, and claimed it is still a viable model. He said inflation is manageable, calling it the byproduct of rapid growth ("and not the worst outcome"). High export taxes, he asserted, are critical to containing inflation and ensuring that Argentines do not pay world prices for food. Both he and Argentine Ambassador Hector Timerman argued that the Kirchner governments have done a lot to help small farmers, and now they expect them to "return this generosity." The Minister and Timerman called for closer relations with the U.S., including progress on Paris Club talks and increasing market access for Argentine products (e.g., lemons). Timerman emphasized that Argentine relations with Venezuela do not affect bilateral relations with the USG. Senator Dodd emphasized USG and Congressional interest in maintaining good relations, while also highlighting the importance of sending appropriate signals -- and Kirchnerista Luis D'Elia's May 28 statement that the "Empire" (USG) was behind the farm strikes was not a good example. End Summary.

Kirchner Model Still Works

2. (SBU) Visiting United States Senator Christopher Dodd, Representative Xavier Becerra, and Ambassador met May 29 with new Economy Minister Fernandez and Argentine Ambassador to the U.S. Hector Timerman. Dodd opened by sympathizing that the Minister had to start his job dealing with the twin problems of high inflation and an increasingly costly farmers strike. The Minister acknowledged that he has spent his first month, since assuming office April 25, focused on the Ag conflict, but said he was quickly getting up to speed on his portfolio.

3. (SBU) While recognizing current challenges, Fernandez stressed that the incredible recovery of the Argentine economy since the 2001/2002 crisis left the country in a strong position. He argued that the "Kirchner" economic model of an undervalued exchange rate and high budget surpluses was responsible for the fast growth, and asserted that the model was still viable today. Never in Argentine history, he stated, has the GoA managed public finances so well (five straight years of fiscal surpluses). This allowed the Central Bank to pursue a policy of maintaining an undervalued or "competitive" exchange rate for a long time without the worry of high inflation. The undervalued peso, in turn, had increased the competitiveness of Argentine producers, led to strong growth, a

trade surplus, and the accumulation of record levels of official reserves (now totaling nearly \$50 billion). He concluded that with a healthy and solid financial sector no longer required to finance public deficits, and the broader private sector largely debt free, the economy is still strong and capable of continued growth.

Inflation "Manageable" and Result of Lack of Supply

14. (SBU) In responding to Senator Dodd's question of whether high inflation was affecting investment in Argentina, Fernandez skirted the controversial issue of whether Argentine national statistics agency INDEC is reporting accurate inflation numbers (INDEC reports 8-9% annual inflation, when most economists estimate it at about 25%). Without discussing numbers, Fernandez assured Dodd that the GoA was attending to the issue. However, he professed not to be too worried, calling it a "manageable problem." He noted that part of the problem was the high world food prices that all countries are facing. Nevertheless, he claimed that, at least in Argentina, inflation was mostly the byproduct of rapid growth and the inability of supply to keep pace with demand. He thought this was "not the worst outcome," given that the high growth was also responsible for huge job growth and poverty and indigence levels that were much lower than in 2002 (albeit "still high").

15. (SBU) High taxes on key commodity exports, he asserted, are a "fundamental" component to the GoA's effort to contain inflation. The export taxes and other restrictions ensure that local prices for basic food and energy prices are kept to reasonable levels. "Otherwise, Argentines would have to pay world prices for these

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products, but on Argentine salaries."

Hard Line with Large Farmers

16. (SBU) Fernandez pointed out that Argentina is not the only country to use export taxes to deal with higher world prices for staple foods. While recognizing that the GoA's last increase in export taxes (in early March) had sparked the farmers' strike, he argued that, despite appearances, the agricultural sector was not a uniform body with the same exact problems. He noted there are four main entities that represent both large and small producers, and everything from grain producers to dairy farms to cattle ranchers. All have varied interests, he added, but they are trying to maintain a united front and "we all still refer to them as the 'campo.'"

17. (SBU) He stated, however, that the GoA differentiates between the different groups. When announcing the sliding scale (or adjustable) export taxes in March, he claimed the GoA had also introduced a policy decision to compensate small producers. (Timerman interjected that the GoA defines a small producer as a farm of 150 hectares or smaller. He also noted that the value of a hectare of land in the pampas is \$10-15,000, with the implication that the larger small producers are sitting on land worth millions and are not among the poor.)

18. (SBU) Both Fernandez and Timerman forcefully argued that the Kirchner government had done a lot to help small farmers since taking office in 1993. Timerman commented that in 1998 200,000 farmers lost their land due to plunging commodity prices at the time (he compared this to similar occurrences during the Great Depression). When Nestor Kirchner took office as President in 2003, Timerman claimed that 43,000 Ag producers were about to have their lands seized by the National Land Bank. However, Kirchner had saved most of these producers (with only 3,000 still facing foreclosure). Therefore, he noted, it is logical for the GoA to expect them now to "return this generosity."

19. (SBU) Fernandez directed most of the GoA's ire against large producers, particularly soy farmers. He said that the change in relative prices of the various products was detrimental to milk and meat production, as the high price of soy was attracting all

investment. He criticized the local practice of "pooling of land" (large semi-corporate farming organizations financed by non-farmer investors -- known locally as "sowing pools"), accusing them of causing a massive shift to soy production, resulting in shortages of milk and meat supplies. Therefore, he noted, the export taxes did not only neutralize high global food prices for Argentine consumers, but also ensured local supply of staple foods such as dairy and meats. (Comment: The GoA has partially justified the March 2008 increase in soybean export taxes as a measure to avert the major ongoing shift to soy farming. However, a key factor in this shift was the high restrictions imposed on the dairy and meat producers, which discouraged production and investment and made soybeans much more profitable in relative terms.)

Advancing on Investment, Trade, Paris Club

¶10. (SBU) Both Fernandez and Timerman emphasized their interest in closer relations with the USG, stressing in particular the importance of U.S. investment in Argentina and also of increasing access to the U.S. market for Argentine products. Timerman argued that U.S. actions on trade (meaning opening to Latin American exports) have a crucial impact on the region's democratization by helping to improve living standards in the region (and thereby increasing popular support for democratically elected governments). He used Argentine exports of lemons as an example. He claimed that Tucuman Province, one of the poorest in Argentina, had in recent years redirected its economy to produce and export lemons. However, he noted that some U.S. producers (California in particular) have moved to block imports of these lemons. Timerman hyperbolically argued that supporting the entry of lemons into the United States was the equivalent of "support for democracy." The Ambassador clarified for the Minister that that the ban on Argentine lemon imports was actually a California court ruling, and not a USG decision.

¶11. (SBU) In a repeat of what he had told the Ambassador the day before (Reftel), Fernandez acknowledged that resolving the GoA's debts to Paris Club creditors was a high priority. He repeated that

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he was still getting up to speed on the issue, but planned to begin considering available options and committed to coordinate closely with the U.S. (Timerman later told the Ambassador on May 30 that he had discussed Paris Club in detail with both Foreign Minister Taiana and Economy Minister Fernandez. Taiana said he agreed fully with the desirability of getting it done. Fernandez had not yet studied the issue closely, but understood its importance and agreed to work on it as soon as he is able to focus on issues other than the Ag conflict. Timerman told Ambassador that he agreed that the goal should be to get a Paris Club deal this year and that he wanted the U.S. to be seen as one of the ones helping to make it happen.)

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Venezuela Should Not Affect Bilateral Relations

¶12. (SBU) In response to a query from Senator Dodd on Argentina's relationship with Venezuela and Venezuela's role in the region, Fernandez commented that Venezuela's petroleum reserves made it a key player in the South American economy, but with limits. He said the key for the GoV was to find equilibrium in determining how much to help the region. He thought that Argentina could help, with Venezuela supplying energy and financing and Argentina supplying human resources and food and technology exports. Fernandez's Chief of Staff chimed in, using the example of dairy cooperative SANCOR. The GoV's investment in SANCOR had revitalized the cooperative, which in turn was providing critical technical assistance to Venezuelan dairies in the area of milk production.

¶13. (SBU) Timerman interjected to emphasize that the GoA understood that there were positive and negative aspects to its relationship with Venezuela. He stated that Argentina was not "dependent" on Venezuela. He continued that the GoA "has an open and close relationship with the GoV, but not submissive." He paraphrased

President Cristina Fernandez de Kirchner in noting that Argentina has close relations with many different countries, including Venezuela, but these bilateral relationships should not affect its relationships with other countries (such as the United States).

¶14. (SBU) Timerman concluded that democratization in Latin America requires closer cooperation and more dialogue. Fernandez interjected, noting his optimism about opportunities for Latin American countries to integrate further. He saw Mercosur as the foundation of this integration, in which Argentina plays a key role. While acknowledging that regional integration can be "tortuously slow," he argued for making the effort.

"D'Elia Does Not Run Argentine Foreign Policy"

¶15. (SBU) Senator Dodd and Representative Becerra, speaking in Spanish, established a warm rapport with both Fernandez and Timerman. They repeatedly emphasized USG and Congressional interest in maintaining good relations with Argentina, with Dodd asking several times for suggestions on how Congress and the USG can help the GoA. Nevertheless, Dodd also took advantage of the opportunity to question the meaning and importance of statements on May 28 by "piquetero" leader Luis D'Elia. Dodd noted that D'Elia, who is close to former President Nestor Kirchner, had publicly accused the "Empire" (leftist code for the USG) of being the force behind the farm strikes. Dodd emphasized that in maintaining close relations, it was critical to remember the importance of sending appropriate signals, and Kirchnerista D'Elia's statements were not the kind that Argentina, "a regional leader," should send. Timerman responded that D'Elia was an important social leader and friend of the GoA, but "he is not the Foreign Minister and does not run [Argentina's] foreign policy."

¶15. (U) This cable was cleared by the CODEL after departure.